MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM

The Advisor for our Retired members

A periodic publication of the Massachusetts Teachers' Retirement System as a service to its members June 2012

In this issue…

PENSION REFORM III

For **retirees**, improved COLA and other benefits; for **current members**, higher costs for certain service purchases; for **new members**, increased retirement age

On November 18, 2011 Governor Patrick signed Chapter 176 of the Acts of 2011, "An Act Providing for Pension Reform and Benefit Modernization," or what is commonly known as "Pension Reform III." The third pension reform measure passed in the last three years, this Act changed certain rules affecting current active members, increased benefits for certain retirees and survivors, and significantly changed the benefit structure for new members who enroll in a Massachusetts public retirement system, or who re-enroll after taking a refund, on or after April 2, 2012.

For highlights of Pension Reform III and how it affects our members, see page 6.

3 percent COLA included in proposed budget for FY2013

As we go to press, the Governor's and Legislature's proposed budget for FY2013 include a recommended cost-of-living adjustment (COLA) of three percent on the first $13,000 of eligible MTRS retirees' benefits, for a maximum annual increase of $390 for the fiscal year beginning July 1, 2012.

Before the MTRS can pay any COLA, however, the FY2013 budget must first be finalized by the Legislature and Governor. Please watch our website at mass.gov/mtrs for information regarding this year's COLA.

*Correction: The fiscal year beginning July 1, 2012 is **FY2013**, not FY2012 as appeared in our printed newsletters. We apologize for this error.*

An important notice regarding the payment of benefits in the month of your death if you are a…

- **Retiree** who retired under, or "popped up" to, **Option A,** or
- **Survivor benefit recipient**

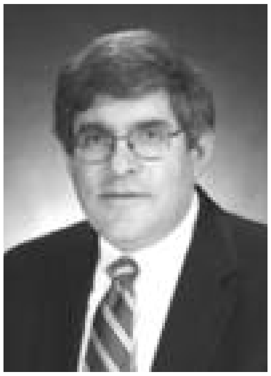
As you may know, because your monthly benefits will cease upon your death, we have not asked you to name a beneficiary.

Since retirement payments are made at the end of each month *for* that month, the portion of your monthly payment that you earn in the month of your death (the "pro-rata amount") will be payable to your estate.

We have found that some survivors do not want to go through the paperwork and potential expense of obtaining a taxpayer identification number, establishing a bank account for the estate and probating the estate, and, as a result, may choose not to collect the retiree's final benefit payment (often a relatively small amount as it may represent only a few days' worth of your monthly benefit). Accordingly, please note that you may designate someone to receive the "pro-rata amount" due in the month of your death, and if you do so, we can issue payment directly to your designee(s) rather than your estate.

If you wish to name a designee, simply go to our website at **mass.gov/mtrs**, download our *Beneficiary Designation Form for Retirees and Survivors*, and mail your completed form to our Cambridge office. Or, if you do not have Internet access, call us at 617-679-6877 and we will be happy to send you the form.

MTRS
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM



Jeff Wulfson, Chairman

BOARD MEMBERS

Jeff Wulfson
Chairman, Designee of the Commissioner of Elementary and Secondary Education

Steven Grossman
State Treasurer

Suzanne M. Bump
State Auditor

Karen A. Mitchell
Elected by the Membership

Dennis J. Naughton
Elected by the Membership

Richard L. Liston
Appointed by the Board

Anne Wass
Appointed by the Governor

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FROM THE CHAIRMAN

We must continue to support responsible, reasonable pension reform

As life expectancies and the economy change, so, too, must the pension system if it is to remain sound for future generations

What can we do to help our public pension systems survive and thrive in an era of taxpayer skepticism? All of us can support the efforts of the Governor and Legislature to enact reasonable reforms to eliminate loopholes and abuses and to adjust the plan to better reflect today's life expectancies and investment returns. The most recent reform legislation, Chapter 176 of the Acts of 2011, is described in detail in this newsletter. Its provisions, many of which will apply only to new members, will help keep Massachusetts public pension plans on a sound financial footing.

And those of us who are privileged to serve as the trustees of your pension plan have the obligation to ensure that it is administered fairly, impartially, and efficiently. I'm proud of the MTRS's reputation for high quality services to its members, but there is always room for improvement. When a problem occurs, as happened with the direct deposit of our retirees' benefit payments in May, our obligation is to be open and up-front about it and work hard to fix it as soon as possible.

At the end of 2011 we said goodbye to four long-serving members of our board: John (Jay) Dow, Linda Ruberto, Ellen Hargraves and John Parsons. Their wisdom and dedication will be missed, and I thank them for their distinguished service. We welcome four new trustees: Anne Wass, Dennis Naughton, and Richard Liston, all of whom are retired educators; and Joannah Quinn, representing Auditor Suzanne Bump. Continuing their service on the board are Karen Mitchell, who teaches in the Plymouth public schools, and Nick Favorito, the executive director of the State Employees Retirement System who represents Treasurer Steven Grossman. They all share a commitment to continued excellence in the administration of the MTRS.

Best wishes for a safe and enjoyable summer.

Jeff Wulfson

May 2012 direct deposit issue resolved quickly by Treasurer's Office

MTRS retirees who incurred bank fees to be reimbursed by Treasury

As you may have heard from us and news stories, our retirees' direct deposit payments for May were processed a day later than scheduled: instead of being in our retirees' bank accounts on Thursday, May 31, they were not processed by all banks until 1:00 p.m. on Friday, June 1.

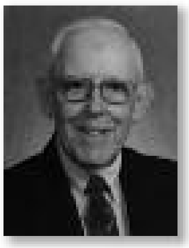
For your reference, the problem was caused by human error at the Treasurer's office. Both the MTRS and the Treasury are very sorry that it occurred, and apologize for the inconvenience that it caused our retirees. The Treasurer and his staff are reviewing their internal controls and are committed to implementing measures to ensure that this type of error will not happen again. We thank Treasurer Grossman for his immediate and personal attention to resolving this unfortunate event, and also for quickly establishing a reimbursement process for our retirees who incurred bank fees as a result of the delayed deposits.

If you incurred any overdraft charges or bank fees as a result of the delay in the electronic transfer of your May MTRS benefit payment to your bank account, please see our website at **mass.gov/mtrs** for instructions on how to request reimbursement for your charges.

Board bids farewell to four long-serving members, and welcomes our new representatives

In the past few months, several of our long-serving members have left the Board after many years of dedicated service, and new representatives, who have already hit the ground running, have taken their seats. We thank our departing members for their commitment, hard work and friendship over the years, and welcome our new representatives!

For your many years of dedicated service, thank you to our departing members…



John A.M. Dow, Jr.

Last fall, after 40 years of dedicated service as one of the two Board members elected by the membership, Mr. Dow decided not to seek re-election. One of the longest-serving Board members, Mr. Dow began his teaching career in the Boston public schools, taught in Ipswich for a few years and then transferred to Marblehead, where he remained for 35 years before retiring in 1989. Mr. Dow showed us and our members great compassion and respect throughout his tenure, and for that, we will be forever grateful.

John Parsons

For more than eight years, Mr. Parsons served as the State Auditor's designee to the Board. A former school teacher and graduate of Bridgewater State College and Suffolk University Law School, Mr. Parsons is now General Counsel with our oversight agency, the Public Employee Retirement Administration Commission.

Linda M. Ruberto

During her 20 years as the Board's appointed member, Ms. Ruberto was active with the National Council on Teacher Retirement, serving as Chairperson of the Resolutions and Education Committees and participating on the Legislative and Nominating Committees. Prior to her retirement, Ms. Ruberto was a biology teacher in the Pittsfield Public Schools. We are grateful for Ms. Ruberto's service to the educators of Massachusetts and the Board, and we wish her the best.

Ellen T. Hargraves

A 25-year veteran of the Ayer and Groton-Dunstable School Systems, Ms. Hargraves served as the Governor's appointee to the Board for more than 11 years. During her teaching career, she was also the founder and past-president of the Groton Parent-Teacher Organization. We are thankful to Ms. Hargraves for her dedication and support over these many years.

…and to our new members, welcome—we look forward to working with you!

Anne Wass

Appointed by the Governor

A current MTRS retiree, Ms. Wass taught sixth grade at Hanover Middle School for 31 years, and also served as president of the MTA. In April 2012, she was appointed to the Board by Governor Patrick for a four-year term.

Dennis J. Naughton

Elected by the membership

Now retired, Mr. Naughton began his teaching career in 1968 at Millis Public Schools, where he was a high school social studies teacher for 33 years and principal for three years. Mr. Naughton was elected by the membership in December 2011 for a four-year term.

Richard L. Liston

Appointed by the Board

Prior to his retirement, Mr. Liston was a special education teacher in the Everett Public Schools for 40 years, where he also served as president of the Everett Teachers Association. Mr. Liston represents retired members on the MTA Board and is co-chair of the MTA Retired Members Committee.

Joannah M. Quinn

State Auditor's Designee

Ms. Quinn, appointee of State Auditor Suzanne Bump, is also Ms. Bump's chief legal counsel. She is a graduate of Regis College and Suffolk University Law School.

Our Massachusetts Teac

Who we are—and regarding our fundi

A profile of our membership

Who we are…

Active members

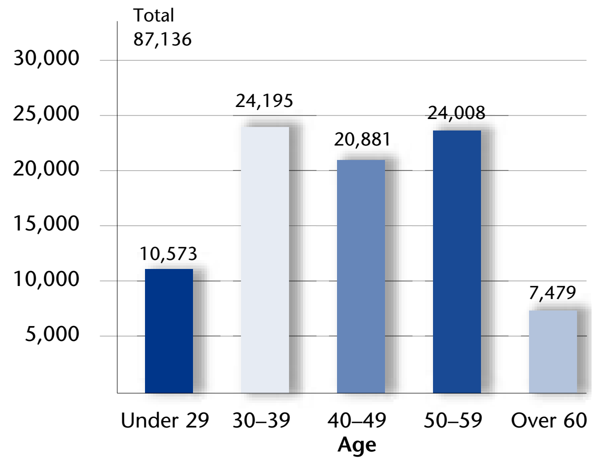
- Average **salary** $63,789
- Average **age** . . . . 44.3 years
- Average **service** . . 12.9 years
- Total member compensation . $5.55 billion
- Employee contributions . . $543 million

Retired members

- Average **annual benefit** $38,307
- Average **age** . . . . 70.2 years
- Total benefits paid . . $2.13 billion

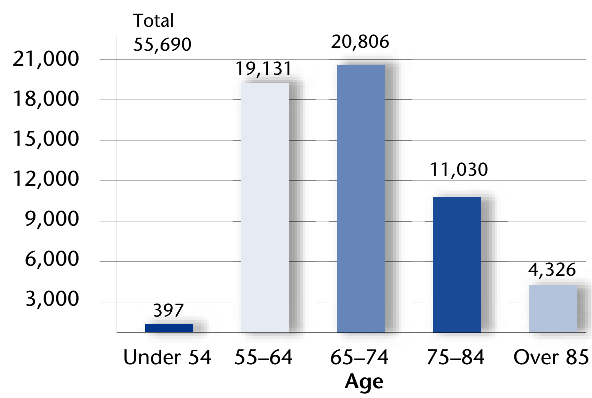
Source: Public Employee Retirement Administration Commission's 2011 Actuarial Valuation of the Massachusetts Teachers' Retirement System, www.mass.gov/perac/teachers/2011teachersval.pdf

Our active members, by age



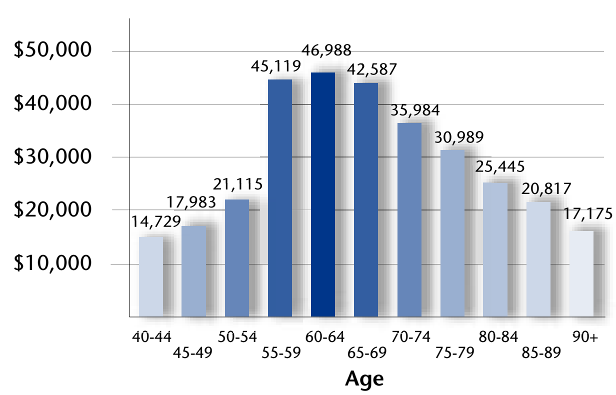
In 2004, the ratio of active members to retirees was 5:2, meaning there were five active members for every two retirees. It is now 3:2.

Our retired members, by age



This population has never been greater, with the number of older retirees continuing to grow—including 1,610 now age 90 or over.

Current average benefits, by age



While the average benefit by age will vary from year to year based on the ages of new retirees, it has steadily increased over the years, as evidenced by a right-to-left reading of the bar graph.

chers' Retirement System

ng status, where we stand

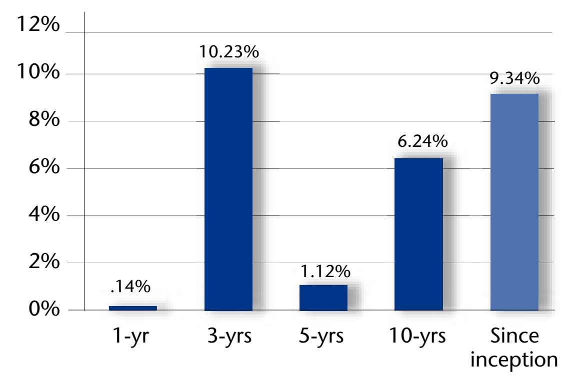
Our funding status: Not where we'd like to be, but up 8% over the past two years

PRIT Fund closed 2011 with a small gain; up 6.1% in first quarter of 2012

Although the Pension Reserves Investment (PRIT) Fund experienced significant losses as a result of the downturn in the economy in 2008, the MTRS's assets in the Fund have been increasing in value. In calendar year 2008, our system's assets in the Fund decreased by $7.3 billion, to $17.1 billion. In 2009 and 2010, investment gains were strong, and totaled $5.52 billion. For the first quarter of 2012, our investment assets grew 6.1%, from $20.128 billion to $21.350 billion as of March 31, 2012.

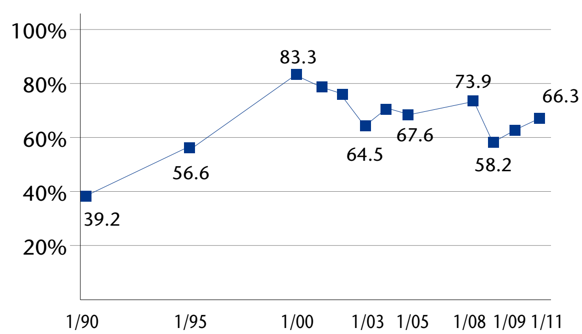
The nine-member Pension Reserves Investment Management (PRIM) Board is chaired by State Treasurer and MTRS Board member Steven Grossman. Also serving on the Board and representing the interests of the teachers' retirement system are MTRS Board member Dennis Naughton and retiree Robert Brousseau, who is in his twenty-fifth year on the PRIM Board. Michael G. Trotsky, CFA is the Executive Director of the PRIM Board.

PRIT core fund performance



The Legislature has set 8.25 percent as the pension fund's long-term rate of return target. The system has averaged 6.24 percent over the past 10 years, and **9.34 percent** since its inception in January 1985.

The MTRS's funded ratio



Over the last 19 years, the system's funding ratio has ranged from a low of 39.2% to a high of 83.3%.

After a steep decrease to 58.2% in 2009, it has risen 8.1%, to 66.3%.

Where we stand…

Plan funding

- Percent **funded** 66.3%
- **Unfunded** liability . . . . $11.7 billion
- Year **fully funded** 2040

The Teachers' Retirement System's assets are invested by the Pension Reserves Investment Management (PRIM) Board. As of December 31, 2011, our System's assets of $20.128 billion were invested as follows:

- Global equities 44.9%
- Private equities 11.6%
- Fixed income. 21.8%
- Real estate. 9.6%
- Timber 4.0%
- Hedge funds 7.8%
- Alternative investments. 0.3%

For more information about the PRIM Board and the PRIT Fund, visit PRIM's website at mapension.com

Pension Reform III: Highlights for MTRS members

Affecting current and future **RETIRED members…**

Improved cost-of-living adjustment and increases in certain other benefits

For our retirees, Chapter 176 contained several provisions that increased benefits:

- **COLA base increase**: All future cost-of-living adjustments (COLAs) approved by the Legislature will be paid on the first $13,000 of the annual benefit for all members and survivors who have been receiving their benefits for at least one full fiscal year. As COLAs are based on the increase in the Consumer Price Index or 3%, whichever is less, the maximum annual COLA amount is now $390.
- **Same-sex marriage option change**: Allowed members (and surviving spouses of such members) who entered into a same-sex marriage between May 17, 2004 and May 17, 2005, and who retired on or before May 17, 2004 under Option A or B, a one-time limited opportunity to change their retirement to Option C. As we go to press, we have received six applications from members or their surviving spouses to change to Option C benefits.
- **Pre-1975 maternity leave credit**: Members who took a maternity leave of absence or resigned from teaching due to maternity before January 1, 1975, and who retired before September 1, 2000 at less than the 80% maximum benefit, are eligible to receive up to 4 years of creditable service. To receive this credit, you must complete and submit a *Chapter 176 Pre-1975 Maternity Leave Credit Application,* which we mailed to potentially eligible members at the end of February. We have already received more than 1,300 applications, and will be processing them over the next several months. If you believe you are eligible to apply for this credit and you have not received an application from us, please call our Cambridge office at 617-679-6877 to request an application. There is no deadline to apply for this credit.
- **Increase in the minimum annual pension for members with at least 25 years of creditable service**: Effective April 2, 2012, the minimum pension for members who retired, or who retire in the future, with at least 25 years of creditable service was increased from $10,000/year to $15,000/year. As a result of this provision, 173 of our retirees received benefit increases to $1,250/month in their May 2012 payments.
- **Increase in the minimum monthly spousal benefit from $250 to $500**: Effective April 2, 2012, the minimum benefit paid to an eligible surviving spouse of a member who dies while in service was increased from $250/month to $500/month. We are now in the process of identifying eligible spousal benefit recipients, and will be adjusting these payments as soon as possible.

Increase in the post-retirement employment earnings limitation for Massachusetts public retirees

Pursuant to M.G.L. c. 32, section 91, there are limits on the amount of money that a rehired retiree may earn from post-retirement employment by a Massachusetts public entity. This post-retirement earnings limit is equal to the difference between the salary being paid for the member's former position and the amount of his or her retirement benefit.

Chapter 176 increased this limit by $15,000 per calendar year *after* the member has been retired for 12 months, and allowed members who have been retired for at least 12 months as of April 2, 2012, to earn an additional $15,000 for the remainder of calendar year 2012 from Massachusetts public employers as of April 2, 2012.

As shown in the table below, you may earn an additional $15,000 per calendar year beginning with your *second* full calendar year of retirement.

Examples: Alan Administrator retired on June 30, 2011. He will become eligible to earn the additional $15,000 beginning on January 1, 2013. Mary Educator retires on June 30, 2012. For the rest of 2012 and all of 2013, she is subject to the regular earnings limitation; on January 1, 2014, she may earn an additional $15,000 during calendar year 2014, and each subsequent year.

<table>
<tr><th rowspan="2">A summary of the post-retirement employment restrictions for Massachusetts public retirees</th><th>When NO critical shortage</th><th colspan="2">When a critical shortage IS declared by ESE</th></tr>
<tr><th>ALL MTRS Retirees</th><th>Retirees under Regular formula</th><th>Retirees under RetirementPlus</th></tr>
<tr><td>1) Time limitation: 960 hours in a calendar year.</td><td>Applies</td><td>Waived</td><td>Waived</td></tr>
<tr><td>2) Earnings limitation: On a calendar year basis, a rehired retiree's post-retirement earnings cannot exceed the difference between the current salary of the position from which the member retired, and the amount of his or her annual pension. After the member has been retired for at least one full calendar year (one full January-through-December year), this earnings limit is increased by $15,000.
<table>
<tr><th>Date of retirement</th><th>Date eligible to earn additional $15,000</th></tr>
<tr><td>Before or on 4/1/2011</td><td>4/2/2012</td></tr>
<tr><td>4/2/2011 – 12/31/2011</td><td>1/1/2013</td></tr>
<tr><td>1/1/2012 – 12/31/2012</td><td>1/1/2014</td></tr>
<tr><td>1/1/2013 – 12/31/2013</td><td>1/1/2015</td></tr>
</table></td><td>Applies</td><td>Waived</td><td>Applies for first two year of member's retirement; waived thereafter</td></tr>
<tr><td>3) Separation from service: If returning to same employer from which the member retired, 60 days. Exception: This particular restriction does not apply if the member retired either at age 65 or older or at the maximum benefit amount of 80% of his or her final salary average.</td><td>Applies</td><td>Applies</td><td>Applies</td></tr>
</table>

Affecting current **ACTIVE members** with membership dates before April 2, 2012…

Higher costs for certain service purchases

- **Increase in interest charged on certain service purchases**: The interest charged on refund buybacks and other service purchases under M.G.L. c. 32, section 3, doubles—from "buyback" interest (which is, by definition, one half of the actuarially assumed interest rate, or 4.125% at this time) to "actuarial" interest (which is the actuarially assumed rate of return on our system's investment fund, and is currently 8.25%)—if, based on a member's membership history, the service purchase is not made within a specified time period.

Retirement salary average "anti-spiking" limitation

- **Salary average "anti-spiking" limitation**: Affecting members who retire after April 2, 2012, this provision limits the annual increase in pensionable earnings of each of the three years used to determine the final salary average to no more than 10% of the average of the previous two years' salaries. However, the 10% limit does not apply if, during the three years used to determine the member's final salary average, he or she had a bona fide job change, or received payments for additional services that are otherwise eligible for inclusion or other payments that are exempted.

Affecting **NEW members** who enroll, or re-enroll after taking a refund, after April 2, 2012

Subject to a new benefit tier and a minimum retirement age of 60

New members as of April 2, 2012 (and current members who leave the MTRS, take a refund and return to membership after April 2, 2012), are subject to a new benefit structure.

Under this new tier:

- The minimum retirement age has been raised from 55 to 60. **Unlike the current plan, which allows members with 20 years of service to retire at any age, under this new tier, members cannot retire before age 60, regardless of their number of years of creditable service.**
- For each year below age 67, the age factors in the retirement formula have been reduced by 0.0015*; for members with at least 30 years of service, by 0.00125*. **The age at which a member reaches the maximum age factor has been raised by two years—from age 65 to 67.**

Selected ages	Current factor	New factor *(based on years of service)* Under 30 years	30+ years
55	0.015	n/a	n/a
58	0.018	n/a	n/a
60	0.020	0.0145	0.01625
62	0.022	0.0175	0.01875
65	**0.025**	0.022	0.0225
67	**0.025**	**0.025**	**0.025**

- The salary average period used in the retirement benefit formula has been lengthened from 3 years to 5 years.
- The interest charged on certain service purchases will increase if the service is not applied and paid for by April 2, 2013.
- Retirement benefits under the termination formula have been eliminated.
- The contribution rate is reduced by 3% (e.g., from 11% to 8%) once a member has 30 years of creditable service.
- The additional 2% RetirementPlus add-on begins after the 23rd year of creditable service instead of the 24th year of creditable service.

How does this impact new members' retirement benefits?

As shown in the following examples, members subject to this new tier will have to work longer in order to be eligible to retire, and, when they become eligible, will receive retirement benefits that are less than those afforded under the existing tier.

Retiree's age and yrs service	Current tier and plan: Allowable % of **3-year** salary average — Regular	RetirementPlus	New tier: Allowable % of **5-year** salary average — All RetirementPlus
60/29 yrs	58%	58%*	42.05%*
60/30 yrs	60%	72%	62.75%
58/34 yrs	61.2%	80%	Not eligible to retire!
60/35 yrs	70%	80%	80%

**Retiree does not meet RetirementPlus 30-year minimum creditable service requirement, so not eligible for additional RetirementPlus percentages.*

For more information on pension reform, the restrictions on post-retirement employment and other topics, visit our website at mass.gov/mtrs

What's new!

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The MTRS defined benefit plan: Good for you, good for the state

Providing a steady economic stimulus to Massachusetts communities and the state economy

According to the National Institute on Retirement Security (NIRS), a not-for-profit organization devoted to providing education about retirement issues, state and local government defined benefit plans like ours continue to "provide a steady economic stimulus to Massachusetts communities and the state economy."

What is a defined benefit plan?
Under a defined benefit plan, your retirement benefit is determined according to a set formula, and the amount is guaranteed regardless of fluctuations in the pension fund's performance. Additionally, your benefit amount is payable for your lifetime.

In contrast, a "defined contribution" plan is dependent on the contributions made by the employee, and possibly by the employer, and the growth of those assets over time as they are invested in the financial markets. A defined contribution plan is very susceptible to fluctuations in the market; nothing is guaranteed.

About the MTRS plan
The MTRS, the largest of the state's 105 contributory retirement systems, is a defined benefit retirement plan as allowed under section 401(a) of the Internal Revenue Code. Your benefit is funded by three sources:

- **Employee contributions,** which are your retirement contributions to the MTRS during your membership, which are invested in the Pension Reserves Investment Trust (PRIT) Fund,
- **Employer contributions,** which are annual appropriations from tax revenues by the Commonwealth (for retirement purposes, your "employer"), and
- **Investment earnings** on the PRIT Fund.

A benefit for all
According to the NIRS, in 2009, expenditures stemming from state and local pensions like ours supported:

- **49,869 jobs** that paid $2.8 billion in wages and salaries,
- **$7.8 billion** in total economic output, and
- **$1.2 billion** in federal, state, and local tax revenues in Massachusetts.

Additionally, each dollar paid out in pension benefits supported $1.62 in total economic activity in the state, and each dollar "invested" by Massachusetts taxpayers in these plans supported $4.59 in total economic activity in the state.

For more information, visit www.nirsonline.org.